

SUBCOMMITTEE NO. 4

Agenda

Michael Machado, Chair
Tom Harman
Christine Kehoe



Hearing Outcomes

Wednesday, April 23, 2008
9:30 a.m.
Room 113

Consultant: Brian Annis

Transportation

<u>Item</u>	<u>Department</u>	<u>Page</u>
0520	Secretary for Business, Transportation, and Housing	1
8530	Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun	7
2665	High-Speed Rail Authority	8
2600	California Transportation Commission	10
2660	Department of Transportation	12
2640	Special Transportation Programs	41

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0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency (BT&H Agency) is a member of the Governor's Cabinet and oversees 16 departments, including the following large departments:

- Alcoholic Beverage Control
- Corporations
- Housing and Community Development
- California Highway Patrol
- Motor Vehicles
- Financial Institutions
- Real Estate
- Managed Health Care
- Transportation

In addition, the Secretary's Office oversees programs, including the following, which are budgeted directly in the Secretary's Office:

- Infrastructure and Economic Development Bank
- Office of Military & Aerospace Support
- Tourism Commission
- Small Business Loan Guarantee Program
- Film Commission

The Governor proposes total expenditures of \$22.7 million (\$7.1 million General Fund) and 66.5 positions for the Office of the Secretary – an increase of \$800,000 and 7.6 new positions.

Budget Changes proposed for Vote Only

1. New Position for Broadband Promotion (BCP #4). The Administration requests an ongoing augmentation of \$162,000 (General Fund) and one new position to undertake a number of responsibilities to increase broadband access and adoption throughout California. The Governor signed an Executive Order in 2006 titled "Twenty-first Century Government: Expanding Broadband Access and Usage in California." Among other activities, the order established a California Broadband Task Force that produced a final report in January 2008 titled "The State of Connectivity – Building Innovation Through Broadband" (see also www.calink.ca.gov). According to the BCP, the positions would manage ongoing activities related to the order such as compiling data and reports, coordinating workgroups and efforts by multiple state departments, and promoting best practices.

Staff Recommendation: Without prejudice to the merits of this request, this is a new discretionary initiative. The Subcommittee may want to consider rejection of this request due to the severity of the General Fund budget situation.

Staff Recommendation: Reject this request.

Action: Rejected request on a 2 – 0 vote with Senator Kehoe absent.
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- 2. General Fund Budget Reductions (Governor's Budget).** The Administration requests 10 percent General Fund reductions that total \$776,000 and are spread proportionally across several programs. The reductions by program are included in the table below (in \$1,000):

Function	General Fund Base	Proposed Reduction	Proposed General Fund Budget	Special Fund Budget
Film Commission	\$1,204,000	\$120,000	\$1,084,000	\$11,000
Tourism	\$1,047,000	\$110,000	\$937,000	\$50,000,000
Small Business Loan Guarantee	\$4,886,000	\$481,000	\$4,405,000	\$1,954,000
Office of Military and Aerospace Support	\$557,000	\$55,000	\$502,000	None
Technology, Trade and Commerce Agency Closure Costs	\$70,000	\$10,000	\$60,000	None

Staff Comment: The Agency does indicate some reductions to output, processing times, etc., but none of these impacts seem unreasonable given the State's General Fund condition. Staff could argue at the margin that the reductions could be better allocated among the five programs; however, none of those concerns are acute and the Agency can request further budget adjustments next year to re-shift the reductions among programs if some impacts are disproportionately negative. Note – some of these programs are further discussed in the following agenda items; however, these reductions are separable from those issues.

Staff Recommendation: Approve these budget reductions.

Action: Approved reductions on a 2 – 0 vote with Senator Kehoe absent.

Discussion / Vote Issues:

- 3. Infrastructure Bank: Staffing Augmentation (BCP #1).** The Administration requests an augmentation of \$665,000 (special fund) and 7.0 positions for workload, administrative oversight, monitoring of bond and loan proceeds, and marketing. The Infrastructure Bank (I-Bank) provides financial assistance to local governmental entities for infrastructure projects such as roads, water systems, etc., at interest rate costs that are lower than financing that can otherwise be obtained from the private market. Base staffing is about 20.0 positions.

Background / Detail: Initial funding of \$200 million came from the General Fund in 1998-99 and 1999-2000. Since then the I-Bank has issued \$100 million in revenue bonds to expand the program. The Administration indicates the I-Bank plans to issue \$50 million in revenue bonds in 2008-09 to support additional financial assistance. The Administration indicates that workload grows as the cumulative amount of outstanding loans grows.

LAO Recommendations: The Legislative Analyst reviewed the I-Bank in the *Analysis of the 2008-09 Budget Bill*. The LAO recommends that the budget request be approved, but reduced by \$219,000 and two positions based on their analysis of workload. Additionally, the LAO recommends statutory change to ensure that local recipient projects achieve economic development and land use benefits, and recommends that the I-Bank improves its annual report to the Legislature.

Staff Comment: The LAO recommendations related to better focusing loan criteria on economic development and land use benefits might be best addressed via policy committees. The staffing request is a combination of ongoing workload related to existing loans and new workload related to new loans. The cumulative existing-loan workload has grown over the years, suggesting the need for new staff, but the LAO indicates the level of new-loan workload is not expected to increase in 2008-09. The additional reporting requirements suggested by the LAO should assist the LAO and other interested parties in reviewing the I-Bank program in the future.

The administrative cost of the I-Bank is supported by fees, interest earnings, and loan repayments - new staff will not impact the General Fund. According to the I-Bank, new staff will allow for adequate oversight of existing loans to reduce the risk of federal penalties and allow for new loans to support economic development and job creation. Approving new staff at the level suggested by the LAO (5.0 new positions) would be a 25 percent increase from base staffing.

Staff Recommendation: Approve 5.0 new staff (as recommended by the LAO) and approve the LAO-recommended legislative reporting changes. (Do not adopt any LAO-proposed changes to grant criteria – leave those issues for policy committees).

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Kehoe absent.

4. Small Business Loan Guarantee Program / Dormant Special Funds (BCP #3).

The Administration requests trailer bill language that would allow them to use a dormant Housing and Community Development (HCD) fund, with a balance of about \$1.0 million, to fund ongoing BT&H administrative costs for the Small Business Loan Guarantee (SBLG) Program. SBLG administrative costs are about \$360,000 annually to support 3.0 positions. Additionally, the Administration requests to transfer about \$2.7 million in other dormant special funds to the General Fund and abolish those special funds.

Background / Detail: The SBLG program was transferred to the BT&H Agency when the Technology, Trade and Commerce Agency was abolished five years ago. No administrative funding followed SBLG to BT&H; however, accumulated interest earnings in the Small Business Expansion Fund have been sufficient to support the three positions through 2007-08. Accumulated interest earning will have fallen to about \$170,000 by the end of 2007-08.

The option forwarded by the Administration is statutory change to allow use of a dormant HCD fund that has a sufficient balance (about \$1.0 million) to support the SBLG administrative cost for 3 to 4 years, and to transfer to the General Fund about \$2.7 million in other dormant special funds. The dormant special funds actually tie to two expired General Fund programs: (1) a \$3.5 million direct loan program for child care facilities funded with one-time General Fund revenues in 1997-98; and (2) a \$16 million loan guarantee program for child care facilities funded with one-time General Fund revenues in 2001-02. Due to budget challenges, \$11 million in funding was reverted to the General Fund in 2001-02. The programs became inactive and the residual balance of \$694,000 was transferred back to the General Fund in 2004-05. Since then, loans have been repaid and the special fund balance has grown to about \$3.7 million with no active programs for expenditure. The dormant funds are now split into three funds: \$2.5 million in the Child Care and Development Facilities Direct Loan Fund; \$342,000 in the Child Care and Development Facilities Loan Guaranty Fund; and \$1.0 million in the Child Care Loan Guaranty Fund Account in the Small Business Expansion Fund (this is the \$1.0 million the Administration wants to use for ongoing general SBMA administrative costs).

Staff Comment: As indicated in issue #2 on the prior page, the Administration also proposed a 10 percent budget reduction for the SBLG Program, which is a cut of \$481,000. Funding for the program has fluctuated for several reasons over the past decade, and this program has been discussed by the Subcommittee in past years. One benefit for the program in recent years has been increased annual interest earnings in the trust fund, which had been around \$700,000 a few years ago, but is estimated at \$2.0 million in 2007-08. If the request to use the \$1.0 million in the Child Care and Development Facilities Loan Account for SBLG is rejected, the funding for administration will have to be absorbed within ongoing interest earnings, which will reduce funds otherwise available to pay the 11 Financial Development Corporations (FDCs) for their administration of individual loan guarantees.

Staff Recommendation:

- Approve the requested \$2.7 million transfer of dormant special funds to the General Fund, approve related statutory change, and direct Finance to score this General Fund benefit (this revenue gain was not scored in the January Budget).
- Reject the statutory change to redirect \$1.0 million in dormant special funds to the SBLG program administration. Instead, transfer the \$1.0 million in the Child Care Loan Guaranty Fund Account to the General Fund for a net General Fund gain of \$1.0 million and adopt implementing trailer bill language, including language necessary to continue to back one outstanding loan guarantee.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Harman absent.
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- 5. Office of Military Base Retention and Reuse (Staff Issue).** The Subcommittee may want to hear from the BT&H Agency on the program that was called the Office of Military Base Retention and Reuse (OMBRR) when it was shifted to the Agency in 2004-05, but has since been renamed the Office of Military and Aerospace Support (OMAS). The OMBRR was originally housed at the former Technology, Trade and Commerce Agency, but was shifted to BT&H Agency in 2004-05 via a Finance Letter that shifted one position and \$153,000 (General Fund). The budget documents at the time reveal the focus of the Office was to fight any military base closures in California during the federal Base Realignment and Closure (BRAC) process, and to aid communities that suffered from base closures. Because there was a federal BRAC round in 2005, the Legislature augmented the Office by \$350,000 in 2004-05 to add more resources to fight base closure.

Staff Comment: The renamed Office of Military and Aerospace Support (OMAS) has a budget of \$502,000 (General Fund) in 2008-09 after the Governor's 10 percent reduction. There are currently no future BRAC rounds scheduled and the BT&H Agency has redirected the resources to other related and unrelated priorities. The Agency indicates that in 2007-08: \$200,000 was awarded as a grant to the non-profit California Space Authority (which promotes the space industry); \$140,000 was spent on international trade efforts; and about \$210,000 was shifted to the Governor's Office of Planning and Research (OPR). OPR indicates that they have assumed the role of the original base-closure/community-recovery function, as well as a broader range of military activities such as working with local communities and the military on land use and regulatory issues and promoting efforts to expand military activities in California.

Given that the original need for the Office has diminished (because there are no upcoming BRAC rounds) and the BT&H Agency has instead implemented some new programs/activities in recent years that have not come before the Budget Committee, this may be an area to generate additional General Fund savings. If additional BRAC rounds are scheduled in the future, the Legislature may want to consider restoring or increasing funding for the activity at that time.

Staff Recommendation: Eliminate the Office of Military Base Retention and Reuse (or Office of Military and Aerospace Support), and accordingly reduce the Agency budget by \$502,000 General Fund.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Harman absent.
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8530 Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun (Board) licenses and regulates maritime pilots who guide vessels entering or leaving those bays.

The January Governor's Budget proposed expenditures of \$2.1 million (no General Fund) and 2.0 positions – an increase of \$32,000 and no change in positions. In a February 27, 2008, letter, the Department of Finance provided 30-day notification to the Joint Legislative Budget Committee (JLBC) of its request to augment the Board's 2007-08 budget by \$255,000 to fund legal expenses related to the November 2007 COSCO BUSAN allision with the San Francisco/Oakland Bay Bridge – the JLBC did not object to this request. Additionally, an April Finance Letter requests \$367,000 (primarily one-time) to fund expenses related to this same accident in 2008-09.

Issue Proposed for Discussion / Vote:

- 1. Cosco Busan Allision (Finance Letter #1):** The Administration requests \$367,000 (Board of Pilot Commissioners' Special Fund) and 0.5 positions (one-year limited-term) to support increased legal expenses and conduct a comprehensive review of current practices and processes related to incident review, navigation technology, and pilot fitness. These changes are necessary to address concerns related to the COSCO BUSAN allision with the Bay Bridge. In addition, increased funding will be provided for board member training, staff training, and development and implementation of a diversity recruitment and outreach program. As indicated above, related supplemental funding of \$255,000 has already been approved for 2007-08.

Detail / Background: In November 2007, the COSCO BUSAN tanker hit a tower of the Bay Bridge spilling oil into the bay. Press reports suggested the cause was pilot error and that the pilot had health issue that raised questions about his fitness for the job. Since the Board licenses pilots, questions have arose over the rigor of the Board's evaluation of pilots to test for health and fitness, and the Board's response to pilot misconduct charges.

Staff Comment: The Subcommittee may want to hear a brief overview from the Board on their efforts since the COSCO BUSAN allision to respond to that incident and ensure appropriate oversight of pilots and use of all safety technologies.

Staff Recommendation: Approve the budget request.

Action: Approved request on a 2 – 0 vote with Senator Harman absent.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The total cost to build the entire system was most-recently estimated at \$37 billion.

The Governor's proposed budget includes \$5.2 million for the HSRA, of which \$1.7 million is from the Public Transportation Account (PTA) and \$3.5 million is a reimbursement. This represents a reduction of \$15.9 million from 2007-08; however, the current year funding includes one-time Clean Air and Transportation Improvement bond funding of \$15.6 million that are not available to funding the HSRA in 2008-09. No change is proposed year-over-year to the number of positions which are budgeted at 9.3 positions.

Issue Proposed for Discussion:

1. **November 2008 Bond Vote and 2008-09 HSRA Budget.** The Governor's proposed budget funds state staff but does not provide funding for the contract work that is currently underway. In addition, the Governor supports a High Speed Rail bond for the November ballot. Staff understands that Assembly Bill 3034 (Galgiani) is supported by the Administration and would make changes to the bond act currently on the November ballot. AB 3034 passed the Assembly Transportation Committee on a 10-0 vote on April 14. Should the voters approve a bond, the proceeds will ultimately be available to pay the state's portion of the planning and construction costs.

LAO Comment: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst points out that if there is no funding for the continuing contract work in the budget, the work is likely to stop at the end of the current year and would not resume until after the bond funds are available. The interruption in contract work would likely result in higher costs once the projects start again. In addition, the LAO notes that without the continuation of the contract work in the budget year, a portion of the \$3.5 million in reimbursements from the City of Anaheim may not materialize either.

Budget Alternatives from the HSRA: In addition to the Governor's Budget, the HSRA has presented two alternative funding proposals:

- Augment Funding by \$6.0 million (Public Transportation Account) to match the funding offered by the City of Anaheim and continue base project management activities such as working on design standards, working with the Federal Railroad Administration on the development of high-speed train regulations, providing day-to-day management of the regional work. Preliminary design work on the individual corridors (except Los Angeles – Anaheim) would stop at the end of 2007-08 and restart after the November election if the bond is approved.

- Augment Funding by \$17.3 million (Public Transportation Account) to perform the activities described in the first bullet, plus continue design work on those corridors where work began in 2007-08 with Prop 116 bond funds. The \$17.3 million would be sufficient to fully fund these activities through the November election.

In either case, the HSRA would also request an appropriation to expend \$34.0 million in the Safe, Reliable High-Speed Train Bond Act for the 21st Century bond funds in 2008-09 (contingent on voter approval), and also use bond funds to repay any Public Transportation Account funds expended in 2008-09 up to the period of bond approval.

Staff Comment: The fate of the high speed rail project seems highly dependent on the will of the voters at the November 2008 election. Without approval of the bond, there would be no funding of the magnitude necessary to begin significant implementation of the project. However, the Legislature in the past two years has provided about \$35 million to perform some *relatively* lower-cost early development activities to speed the completion of the project and avoid some construction inflation costs. Given this precedent, the Legislature may want to consider an augmentation to the Governor's Budget to provide "bridge" funding between this fiscal year and the November 2008 election on the bond.

The Subcommittee may want to hear from the HSRA, the Department of Finance, and the LAO on alternative budget options for 2008-09. At a recent Assembly budget hearing, the Administration indicated there may be a May Revision Finance Letter for HSRA, so it may be best to hold this budget open until the additional information has been presented.

Staff Recommendation: Hold open for the May Revision.

Action: Held open budget. Requested addition detail from the HSRA on their requested \$17.3 million augmentation above the amount in the Governor's Budget.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail, and transit improvements throughout California. The CTC also advises and assists the Secretary of the Business, Transportation and Housing Agency and the Legislature in formulating and evaluating State policies and plans for California's transportation programs.

The January Governor's Budget proposes expenditures of \$3.5 million and 22.0 positions for the administration of the CTC (no General Fund) – an increase of \$99,000 and no change in positions. Additionally, the budget includes \$25.0 million in Clean Air and Transportation Improvement bond funds (originally authorized by voters in 1990) that are budgeted in the CTC and allocated to local governments. The Administration submitted one Budget Change Proposal and two April Finance Letters for the CTC.

Issues Proposed for Vote-Only:

1. **Funding for New CTC Commissioners (BCP #5).** The Administration requests \$37,000 (special funds) to support the addition of two Commissioners as mandated by AB 1672 (Ch 717, St of 2007). Prior to AB 1672, the CTC had nine voting Commissioners all appointed by the Governor. With AB 1672, the CTC will have two additional voting Commissioners, with one appointed by the Speaker of the Assembly and one appointed by the Senate Committee on Rules. The new funding is requested to cover the \$100 per diem and travel/lodging expenses of the new Commissioners, as well as related Administrative costs at the CTC.

Action: Approved request on a 2 – 1 vote with Senator Harman voting no.
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2. **Proposition 1B Air Quality Consultant (April Finance Letter #1):** The Administration requests a net reduction of \$30,000 (Proposition 1B bond funds), the elimination of one State position, and budget authority to contract out for air quality and emissions modeling experts in order to fulfill requirements for the Trade Corridor Investment Fund (TCIF) program. The CTC indicates that contract work is more efficient than State staff because the air-quality workload is periodic and would not support a full-time position.

Action: Approved request on a 3 – 0 vote.
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Staff Recommendation: Approve these requests.

Issues proposed for Discussion / Vote:

- 3. High-Occupancy-Toll Lane (HOT Lane) Review (April Finance Letter #4):** The Administration requests an increase of \$100,000 (State Highway Account) in 2008-09, and the same amount in 2009-10, to contract out with a financial consultant to assist in the review of the eligibility of HOT Lane applications pursuant to the requirements of AB 1467 (Ch 32, St 2006). AB 1467 sets out procedures that could allow up to four new HOT lanes in the state.

Staff Comment: A CTC review of fiscal assumptions for HOT lanes seems reasonable under the general requirements of AB 1467; however, it is uncertain how many project applications the CTC will receive for this program. Given that this workload may not materialize, it may be advisable to add budget bill language to specify that the funds can only be used for this purpose and will revert if unexpended.

Staff Recommendation: Approve the request, but add budget bill language to specify the funds are only available for AB 1467 and shall revert if unexpended.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Kehoe absent.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The Department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The Governor proposes total expenditures of \$13.887 billion (\$1.485 billion General Fund) and 22,430.0 positions, a decrease of \$262.7 million (2 percent) and an increase of 148.0 positions relative to the adjusted 2007-08 budget. The decrease is primarily due to the receipt of \$460 million in unanticipated one-time federal funds in 2007-08.

The 2007 Budget Act provided about \$1.3 billion in General Fund relief from transportation in both the Caltrans Budget and the Special Transportation Program budget. The General Fund benefit was due to mass transit funds being shifted to mass transportation programs that would otherwise have been supported by the General Fund. Statutory provisions provide that about half of this General Fund relief is ongoing, and the Governor's Budget for 2008-09 includes about \$600 million in transportation General-Fund relief – consistent with the statutory structure adopted last year. This issue is further discussed in the Special Transportation Program budget item at the end of this agenda.

Issues proposed for Consent / Vote-Only:

(A consolidated staff recommendation on these issues is on page 15.)

1. **Scour Evaluations of Local Bridges (BCP #2).** The Administration requests \$371,000 (\$327,000 federal funds and \$44,000 State Highway Account) and permanent extension of 3.0 limited-term positions to continue the federally mandated bridge scour evaluations of locally-owned bridges. "Bridge Scour" is the erosion of soil surrounding a bridge foundation caused by water flow that can result in bridge failure if undetected and uncorrected. In 2006-07, 9.0 positions (2-year limited-term) were approved for this activity, and Caltrans now indicates that the one-time workload has been accomplished and the ongoing need is for 3.0 positions.

Action: Approved request on a 3 – 0 vote.
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2. **Public Safety Radio (BCP #4).** The Department requests funding of \$32.2 million over five years (\$3.5 million is requested for 2008-09 – all State Highway Account) to modernize Caltrans' radio infrastructure in the 3 Districts that are currently still operating with the legacy system (Districts 1 (North Coast), District 2 (North East), and District 5 (Central Coast)). The completion of this radio modernization was discussed last year, and the Subcommittee approved a total of \$19.6 million over five years to convert the low band radio systems concentrated in the mountainous regions of District 10 (east of Stockton). The Department indicates that most Caltrans Districts (3, 4, 6, 7, 8, 9, 11, and 12) currently operate on high band, but three districts (1, 2, 5, and 10) still operating on low band. This request is consistent

with the cost estimates the Department provided to the Committee last year. Once implemented, Caltrans will have improved reliability and coverage for operability and increased operability with the California Highway Patrol and other emergency responders.

Action: Approved request on a 3 – 0 vote.

3. **District 3 Office Building Relocations (BCP #9).** The Administration requests \$1.6 million (one-time State Highway Account) for the relocation and moving expenses and first-year maintenance and operations of the new District 3 headquarters office building in Marysville. The Legislature approved the construction of this new state-owned facility in 2002-03. The BCP indicates that another BCP will be submitted next year for the ongoing maintenance and operations cost. The new building will consolidate 776 department employees who are currently spread across five buildings. Because the Department of General Services will assume responsibility for maintenance and operations at the new facility, a total of 7.0 Caltrans maintenance and operations staff are eliminated as part of this request.

Action: Approved request on a 3 – 0 vote.

4. **Toll-Bridge Maintenance (BCP #14).** The Administration requests no net change in expenditures, but a \$7.1 million increase in reimbursement authority and a \$7.1 million reduction in State Highway Account authority related to the maintenance of toll bridges, toll facilities, security surveillance, and utility costs for toll bridges in the San Francisco Bay Area (excluding the Golden Gate Bridge). This request is consistent with existing statute, as modified by AB 144 (Ch 71, St 2005), that transferred fiscal responsibility for the maintenance of these toll bridges from Caltrans to the Bay Area Toll Authority (BATA).

Action: Approved request on a 3 – 0 vote.

5. **Race-Neutral Measures Program (BCP #28).** The Administration requests \$179,000 (State Highway Account) and 2.0 positions (two-year limited-term) to implement the federally-mandated Disadvantaged Business Enterprise (DBE) Race-Neutral Measures Program. Federal law requires states that received federal aid to implement a DBE Program that tracks utilization and evaluates any disparities in utilization of women and minority-owned businesses. If race-neutral measures are not effective in eliminating identified disparities then, and only then, the Department is required to use contract goals to address remaining disparities. These positions will assist with implementing new outreach to DBE and tracking success using the race-neutral measures. For context, in May 2005, the Ninth Circuit Court of Appeals held that before a state can use individual contract goals or any race-conscious measures in its transportation contracting program, the same must possess statistical evidence of discrimination – this decision discontinued Caltrans' race-conscience procurement, as least for a period of time. If DBE efforts are successful, the risk of federal sanctions will be diminished and contract savings could result from more contractors participating in Caltrans work.

Action: Approved request on a 3 – 0 vote.

- 6. San Diego I-15 Managed Traffic Lanes (BCP #30).** The Administration requests \$809,000 (\$573,000 one-time – State Highway Account) and 8.0 positions (ongoing) to set up and continue operation of traffic control operations for the opening of the first of three segments of the Managed-Lanes Project on the I-15. When fully completed in 2013, the project will include 17 miles of movable barriers to alternate the direction of certain lanes to better accommodate commute traffic.

Action: Approved request on a 3 – 0 vote.

- 7. Roadside Rest Areas (BCP #36).** The Administration requests \$2.6 million (ongoing - State Highway Account) to address the increasing costs for janitorial-maintenance service contracts for the 87 Safety Roadside Rest Areas (SRRAs) that the Department operates. Historically, Caltrans spends about \$10 million to \$11 million annually maintaining these facilities, but the cost has increased over the past few years to approximately \$13.5 million. Caltrans indicates that if the request is denied they will implement longer seasonal closures and otherwise reduce hours of service at SRRAs.

Action: Approved request on a 3 – 0 vote.

- 8. Non-Bond Rail Issues (April Finance Letters #6, #15, and #16).** The Administration submitted three Finance Letters related to operations and maintenance of the intercity passenger rail service that Caltrans operates in cooperation with Amtrak:

- Finance Letter #6 – Amtrak Operating Costs requests \$6.6 million (Public Transportation Account) to fund Amtrak's increased operations and fuel costs and maintain the current levels of service. Last year a one-time BCP was approved for \$6.5 million. This request would provide an ongoing increase at the \$6.6 million level.
 - Part of Finance Letter #15 – Rail Heavy Equipment Overhaul requests a one-time augmentation of \$3.5 million (Public Transportation Account), which when added to base funding of \$5.8 million, will fund the 2008-09 cost of required maintenance for rail passenger cars and locomotives. The Administration considers this a technical correction; because a 2002-03 Finance Letter established the practice of base funding at \$5.8 million and annual one-time budget adjustments to tie to each year's maintenance inventory. This year's Governor's Budget inadvertently excluded the one-time adjustment, so that adjustment of \$3.5 million is requested with this Finance Letter.
 - Finance Letter #16 – Rail Heavy Equipment Overhaul requests a reappropriation of \$5.6 million which is the unexpended portion of funds originally appropriated in 2005-06 for rail heavy equipment overhaul and encumbered by a contract with a vendor. However, the vendor ceased work in February 2008 and Caltrans terminated the contract for cause. Caltrans requests a reappropriation of the unspent funds so it can enter a contract with a new vendor to complete the work.
- The LAO has some suggested Supplemental Report Language to improve disclosure of ongoing budget adjustments and program expenditures in this area.

Action: Approved request plus report language on a 2 – 1 vote with Senator Harman voting no.

- 9. State Personnel Board Mandates (BCPs # 5, #10, & #11).** The Administration submitted three requests totaling a net budget reduction of \$1.7 million (State Highway Account) and adding 75.5 positions (primarily funded with redirected contract funding) related to decisions or mandates from the State Personnel Board (SPB).

Background / Detail: The specific Administration proposals are as follows:

- **BCP #5** requests a net budget reduction of \$2.2 million (State Highway Account), a shift of \$3.9 million in contract expenditures to state staff, and 64 new positions to comply with a April 2007 SPB decision that required the state to perform more vehicle and equipment maintenance in-house instead of contracting out. State law allows contracting out to address backlogs and for remote locations within the state; however Caltrans increased contracting after the 2003-04 hiring freeze and cut 64 equipment maintenance positions. SPB found this expanded level of contracting was not allowable. In this area, State staff are less expensive than contracting, so the proposal reflects net savings of \$2.2 million.
- **BCP #10** requests \$323,000 (State Highway Account) and 3 new positions to meet the Equal Employment Opportunity (EEO) directives of the SPB and state and federal mandates. Caltrans has received poor rating by SPB in three consecutive years for not completing discrimination investigations within 180 days. The number of discrimination investigations has increased from 89 in 2003-04 to 173 in 2006-07. This request would also improve EEO training. Because Caltrans paid over \$1.6 million in discrimination-related legal cases in 2004 and 2005, this request may provide some cost avoidance to partially offset its price.
- **BCP #11** requests a net budget increase of \$176,00 (State Highway Account), a shift of \$233,00 in contract expenditures to state staff, and 8.5 new positions to comply with a SPB decision that required Caltrans to perform facility maintenance and custodial work in Districts 1 (North Coast) and District 9 (Eastern Sierra Nevada) in-house instead of contracting out. State law allows contracting out to address backlogs and for remote locations within the state; however unions have asserted that Caltrans is inappropriately applying the exemption. Since the Department of General Services does not provide maintenance and custodial services in these locations, Caltrans would internally staff the activity. In this area, State staff are more expensive than contracting, so the proposal reflects net costs of \$176,000.

Action: Approved request on a 2 – 1 vote with Senator Harman voting no.
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Staff Recommendation: Approve all the budget requests listed in the consent / vote-only section, including the LAO-suggested Supplemental Report Language (SRL) for intercity rail equipment overhaul (Issue #8).

Discussion and/or Vote Issues

10. Big Picture: Transportation Funding Shortfall (Informational Issue). According to a January 2007 LAO study, California governments (State and local) spent approximately \$20 billion on transportation in 2005-06 – with about \$12.0 billion flowing through the Caltrans budget. Proposition 1B bond funds have provided additional funds since then and California transportation spending in 2008-09 is estimated by the Administration at about \$26.0 billion – with about \$13.8 billion flowing through the Caltrans budget. While Proposition 1B and Proposition 42 have increased transportation revenues, these revenue increases have not kept pace with construction inflation – the Administration indicates the California Highway Construction Cost Index compiled by Caltrans increased by 200 percent over the 1994 to 2005 period. While Prop 42 and Prop 1B both addressed highway capacity and local streets and roads issues, the two provided only minimal relief for highway operations and rehabilitation.

Sufficiency of Transportation Funding: The Legislature provided a major one-time increase in State transportation funding with the approval of SB 1266 (Statutes of 2006) which put Proposition 1B on the November 2006 ballot. Proposition 1B has provided a major funding increase for traffic congestion relief projects over the next half decade; however, highway maintenance and rehabilitation funding still faces major constraints. In the 2007 Annual Report to the Legislature, the CTC indicates that the State can “barely afford half of the state’s major rehabilitation needs” and that “congestion relief funding remains uncertain long term, especially after the bond funds are fully allocated in the next five years.”

At the federal level, the National Surface Transportation Policy and Revenue Study Commission issued a report in January 2008 that suggests the nation is only funding about 40 percent of the total annual transportation need of \$225 billion. The Commission proposed that the 18.4 cents per gallon federal gasoline excise tax be increased 5 cents to 8 cents annually for five years and then indexed to inflation afterward to help fix the infrastructure, expand public transit and highways as well as broaden railway and rural access.

In California, local governments are also exploring options to increase revenues for transportation. According to their January 2007 Annual Report, the San Francisco Bay Area’s Metropolitan Transportation Commission is supporting a 10-cent per gallon gasoline excise tax increase in their region to fund local road maintenance, and will seek legislation to authorize a ballot measure. According to a January 9, 2007, Los Angeles Times article, the Metropolitan Transportation Authority has applied for a federal grant to convert existing carpool lanes on three Los Angeles area freeways to high-occupancy toll lanes with congestion pricing.

Highway Maintenance, Rehabilitation, and Capacity Enhancement: To understand the management of highway infrastructure, it is helpful to think of three levels of highway expenditures.

- **Highway Maintenance** – maintenance includes sealing cracks in pavement, thin pavement overlays, painting of iron bridge structures, and cleaning of drains and filter traps. The Legislature amended statute to require a bi-annual Maintenance Plan from the Administration starting in 2005. The 2007 plan indicates that every \$1 spend on maintenance reduces future rehabilitation work by \$5. The Legislature has approved several increases in the maintenance budget over the past four years, which the Administration indicates is sufficient to keep the maintenance backlog from growing. The report indicates that to achieve the cost-effective level of maintenance within 5 years, an additional \$589 million would have to be expended each year until the maintenance backlog is eliminated. Therefore, a one-time funding increase of \$2.9 billion is needed (spread over 5 or more years) to eliminate the maintenance backlog.
- **Highway Rehabilitation** – this category is the State Highway Operations and Protection Program (SHOPP) and funds major rehabilitation, replacement, and reconstruction of pavement, bridges, culverts, and landscaping. Statute also requires bi-annual SHOPP plans and the 2007 plan indicates that the annual rehabilitation need is \$5.5 billion, but base funding only provides about \$2.5 billion annually. Therefore, an on-going funding increase of \$3 billion is needed to achieve the level of SHOPP expenditures the CTC believes is prudent.
- **Highway Traffic Congestion Relief (Capacity Enhancement)** – In addition to maintaining existing capacity on the State's highways, the State needs to add additional lane miles to accommodate the growing population and maintain or reduce the existing level of traffic congestion. The funding deficit for congestion relief is the hardest to define, but past CTC and federal studies would suggest it could annually be in the magnitude of \$5 billion. Therefore, upon the expenditure of Prop 1B bond funds, an on-going increase of approximately \$5 billion is needed to continue to address traffic congestion.

Need for Solutions: The funding provided by Prop 1B has mitigated some of the funding deficiencies listed above. Prop 1B provides \$500 million for highway rehabilitation (most of this funding is expended in 2007-08) and over \$10 billion for highway congestion relief. In the Governor's Budget Summary, the Administration recognizes that current funding is insufficient to adequately and effectively operate and preserve the State Highway System, and indicates it will work with interested parties and the Legislature to develop more information about the scope of the problem and long-term solutions.

Administration Short-term Solutions: While the Administration is indicating a need for long-term solutions, they are moving forward with the short-term solution of additional borrowing. Caltrans has proposed a plan to the CTC to issue \$1.9 billion

in Grant Anticipation Revenue Vehicle (GARVEE) bonds through 2012-13 to fund additional SHOPP projects (\$141 million is proposed in 2008-09). GARVEE bonds are a federal program that allows states to issue revenue bonds backed by future federal highway revenue – so GARVEEs do not provide additional revenue, rather they speed up the receipt of federal revenue. The Legislature has previously approved the use of GARVEEs, and they have been used in the past for congestion relief projects; however, this would be the first time they are used for SHOPP purposes. Once GARVEEs are issued, a portion of future federal revenue is expended for debt service – reducing the amount otherwise available for new transportation expenditures.

LAO Long-term Solutions: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst outlines the recent history of transportation funding and challenges for the future (<http://www.lao.ca.gov/laoapp/PubDetails.aspx?id=1775>). The LAO recommends the Legislature explore the following three options in deciding how to adequately fund highway maintenance and rehabilitation needs: (1) raise the state gas tax by at least 10 cents and index it for inflation; (2) consider taxing alternative fuels; and (3) explore mileage-based fees and additional toll roads.

Focus on Bridges: On August 1, 2007, the Interstate 35W bridge across the Mississippi River in Minneapolis, Minnesota unexpectedly collapsed. Since this is the first regular subcommittee hearing with Caltrans since that event, the Subcommittee may want to hear from the Department on the status of California bridges. As background, there are more than 12,000 State-owned bridges plus about 11,500 locally-owned bridges in California. Caltrans recently reported that 1620 State-owned bridges and 1950 locally-owned bridges are classified by the federal definition of “structurally deficient.” However, Caltrans indicates that none of these bridges are deemed unsafe for the traveling public and that a “structurally deficient” rating can occur if the bridge shoulder is too narrow, or is overdue for painting. As additional context, the State has spent billions of dollars over the past decade to seismically retrofit bridges: the State phase 2 Seismic Retrofit Program initiated after the 1994 Northridge earthquake is 99 percent complete (1,148 of 1,155 bridges complete); and the Local Bridge Seismic Retrofit Program is 57 percent complete (709 of 1,235 bridges complete). However Proposition 1B includes \$125 million to match up to \$1.1 billion in federal funds to complete these local projects.

Suggested Questions: The Subcommittee may want to hear from the LAO, Caltrans, the CTC, and the public on the following:

1. ***Where are transportation shortages the most acute?***
2. ***What alternatives for new revenue should be considered to address highway rehabilitation and other transportation needs?***
3. ***What is the current Administration strategy for the use of GARVEE bonds for SHOPP and STIP?***
4. ***What is an appropriate level of GARVEE debt – should more GARVEEs be issued to accelerate additional SHOPP projects?***

5. *What is Caltrans doing to ensure the safety of bridges in California?*

Staff Comment: Given the current constraints on transportation funds, GARVEE bonds are a reasonable method to move important projects forward that would otherwise be delayed. However, the need for GARVEEs in the SHOPP program does further highlight the need for additional transportation revenues in the future. The traditional sources of new revenue are increasing the gasoline tax, road tolls (either of a state-managed facility or a facility leased to a private operator), or use of more General Fund or other non-transportation-associated revenues. The need for the State to act increases over time as Proposition 1B is expended and to the degree the federal government does not step up to address the nation's infrastructure needs when the federal transportation act is reauthorized in 2009.

Staff Recommendation: This is an informational issue, and no action is required. However, some related budget requests are included in the issue that follows.

Action: Informational only.

11. Budget Requests to Mitigate the Transportation Funding Shortfall (Finance Letters #10 and #13). The Administration submitted two budget proposals to partially address transportation funding shortfalls discussed in the prior issue through pavement investment efficiencies and through additional borrowing:

- Finance Letter #10 – Pavement Management Program requests \$4.2 million in 2008-09, \$6.6 million in 2009-10, and \$8.8 million in 2010-11 to implement a new State Highway Pavement Management Program. The majority of this three-year request would fund a pavement structure inventory for the entire pavement network using ground penetration radar with pavement coring and identification. While this \$19.6 million three year program would not directly repair any damaged pavement, Caltrans estimates that cumulative savings over the following 5-year period will be \$118 million, resulting in a average benefit-cost ratio of 4.4 to 1. The savings would occur, because the improved data would allow better forecasting of pavement deficiencies and better investment decisions.

Action: Approved request on a 2 – 1 vote with Senator Harman voting no.
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- Finance Letter # 13 – GARVEE Bonds requests the establishment of budget authority for the amount of total debt service and related financing costs associated with the proposed Grant Anticipation Revenue Vehicles (GARVEE) issuance in 2008-09. The amount requested is \$181 million (federal funds) and would cover all principal and interest debt payments through full repayment in 2019-20. Of the \$181 million, \$141 million represents principal and the remainder interest. The use of GARVEE bonds accelerates projects that would otherwise be delayed because of insufficient transportations funds, saving construction-inflation costs, and delivering the project faster to travelers. Existing Statute allows the California Transportation Commission to authorize GARVEE projects up to a level where GARVEE debt service reaches 15 percent of annual federal funding. Language similar to the proposed budget bill language, was adopted when GARVEEs were last issued in 2004-05.

Action: Approved request on a 3 – 0 vote.
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Suggested Questions: The Subcommittee may want to hear from Caltrans and the LAO on the following:

- 1. *What is the current system Caltrans uses to prioritize pavement projects?***
- 2. *What reforms to pavement management are proposed generally, and specifically with FL#10?***
- 3. *Is the technology requested for FL#10 (i.e. “ground-penetration radar”) proven or are there technological and cost risks to this proposal?***
- 4. *What type of highway projects would benefit from the GARVEE funding proposed for 2008-09?***

Staff Recommendation: Approve these requests.

12. Big Picture: Environmental Mitigation Efforts (Informational). In most years, Caltrans presents budget requests related to equipment retrofit, stormwater management, and other initiatives to mitigate environmental impacts. The Subcommittee in the recent past has also discussed the Department's use of alternative fuels. To put a big picture view of the various efforts which have been individually discussed, some of the major *ongoing* components are presented here:

- New Construction: Employing stormwater best-management-practices into new construction projects (State Transportation Improvement Program (STIP) and State Highway Operations and Protection Program (SHOPP)) totals about 4 to 5 percent of the overall project costs (around \$380 million annually).
- Maintenance of Stormwater Mitigation: The budget separately appropriates \$94 million in 2008-09 for the maintenance of stormwater systems.
- Use of Recycled Tire Rubber in Pavement: Caltrans purchased rubberized hot mixed asphalt in 2007 that included approximately 3.1 million recycled tires.
- Litter Pickup: Caltrans currently spends \$55 million annually on litter pickup and an additional \$7 million is requested for 2008-09.
- Equipment Retrofit: Over \$15 million is budgeted for 2008-09 to retrofit equipment to reduce air pollution.
- Environmental Enhancement and Mitigation Program (EEMP): The Governor's Budget includes \$10 million in 2008-09 consistent with the historic funding level.
- Alternative Fuel Usage: Caltrans reported that its alternative fuel usage increased 72 percent in the March 2007 through October 2007 period relative to the prior 8-month period. Overall, this is about 1 percent of total fuel usage.

Staff Comment: The Subcommittee may want to hear from Caltrans on the ongoing environmental efforts outlined above, or any additional ongoing efforts Caltrans wants to describe. Budget Change Proposals that relate to these issues are included in the next issue.

Staff Recommendation: This is an informational issue, and no action is required. However, some related budget requests are included in the issue that follows.

Action: Information only – but skipped issue due to time constraints.
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13. Budget Requests Related to Environmental Mitigation (BCPs #3, #8, #16, & #35). The Administration submitted four budget requests related to environmental issues.

- BCP #3 – Fuel Cost Increase / Alternative Fuels requests \$13.5 million (permanent, State Highway Account) to bring fuel funding from a base of \$2.04 per gallon to \$2.97 per gallon. Caltrans estimates it will use approximately 13.5 million gallons of fuel in 2008-09 and, recently, alternative fuels have comprised about 1 percent of total usage.
- BCP #8 – Equipment Replacement / Retrofit requests \$15.1 million (\$444,000 ongoing, State Highway Account) to fund equipment replacement and retrofit to comply with California Air Resources Board (ARB) air quality mandates. The mandates involve In-Use Off-Road Diesel Engine Fleet Requirements (affecting loaders, graders, crawler tractors, and backhoes) and Large Spark Ignition (forklifts). Both mandates are to reduce nitrous oxide (NOx) and diesel particulate matter (PM) from exhaust emissions.
- BCP #16 – Clean Renewable Energy Bonds (CREBs) requests \$20 million (bond funds) to fund 70 photovoltaic (solar-generated electricity) projects on Caltrans building facilities. The bonds would be repaid over 16 years with annual debt service payments of \$1.2 million, with the funding for the debt service payments coming from utility savings that would result from the installation of the photovoltaic systems on department facilities. CREBs are authorized as part of the federal Tax Incentives Act of 2005, and provide qualified borrowers the ability to borrow at a 0% interest rate.
- BCP #35 – Litter Cleanup requests \$5 million (permanent, State Highway Account) to contract with the California Department of Corrections and Rehabilitation (CDCR) or other agencies to perform litter clean up and \$2 million (three-year limited-term, State Highway Account) to fund an anti-litter media campaign.

Suggested Questions: The Subcommittee may want to hear from the Caltrans and the LAO on the following:

- 1. *What is Caltrans' goal for alternative fuel usage in 2008-09, and how is that incorporated into the BCP #3 request? Given recent gasoline prices, is funding at \$2.97 per gallon sufficient?***
- 2. *BCP #16 indicates that the Department is still evaluating options for construction and installation of the photovoltaic systems – has the Department since determined how construction would be accomplished?***
- 3. *Statewide public media campaigns in California always face the challenge of high cost and difficulty measuring effectiveness (how does awareness translate into action). How does Caltrans justify this expense?***
- 4. *BCP #35 implies that parolees are not currently utilized in California for litter cleanup. If this is untested in California in recent times, should this be a pilot program?***

Staff Comments: The Subcommittee may want to consider increasing funding for fuel costs if \$2.97 per gallon seems unlikely for 2008-09. To the extent Caltrans has to absorb the cost of gasoline prices in excess of \$2.97 they will likely do so by reducing litter clean-up, maintenance of rest stops, or other maintenance activities. The other point to note is that the Subcommittee has rejected other new media campaigns this year due to the budget situation, and the Subcommittee may want to consider similar action here with respect to the BCP #35 request for a new \$2.0 million anti-littering campaign.

Recommendations:

- Keep open the fuel cost request (BCP #3) to adjust the funding to revised gasoline price forecasts (the Department of Finance will have a new estimate of general gasoline prices with the May Revision).
- Reject the \$2.0 million requested for a new anti-litter media campaign.
- Approve the \$5.0 million requested for litter pickup, but add legislative reporting to the proposed budget bill language that requires Caltrans to report to the Department of Finance.
- Approve all the other requests included in this issue

Action: Approved Staff Recommendation on a 2 – 1 vote with Senator Harman voting no. Added an enforcement component to the report requirement.

14. Proposition 1B Local Assistance and Capital Outlay (Governor's Budget and Finance Letter #12). This issue discusses the Local Assistance and Capital Outlay components of Prop 1B – State Operations is discussed in the following issue. The 2007 Budget Act and associated legislation appropriated a total of \$4.2 billion, or 21 percent, of total Proposition 1B funds. The Governor's budget requests \$4.67 billion, or 23 percent, of total Prop 1B funds for the 2008-09. Amounts (dollars in millions) are as follows:

Proposition 1B Category	Total 1B Amount	2007-08 Budget	Allocations through April 10 '08	2008-09 Proposed Budget	Budget Entity
Categories with already-selected projects:					
Corridor Mobility Improvement Account (CMIA)	\$4,500	\$608	\$615	\$1,547	Caltrans
State Transportation Improvement Program (STIP)	\$2,000	\$727	\$667	\$1,187	Caltrans
State Highway Operations and Preservation Program (SHOPP)	\$500	\$280	\$192	\$94	Caltrans
State Route 99 Improvements	\$1,000	\$14	\$14	\$108	Caltrans
Local Bridge Seismic Retrofit	\$125	\$14	\$14	\$21	Caltrans
Categories with formula-based allocations:					
Local Streets & Roads	\$2,000	\$950	\$514	\$0.1	Shared Revenues
Transit	\$3,600	\$600	\$393	\$350	State Transit Assistance
Categories with guidelines / project section underway:					
Intercity Rail	\$400	\$188	\$46	\$73	Caltrans
Grade Separations	\$250	\$123	\$0	\$65	Caltrans
Traffic-Light Synchronization	\$250	\$123	\$0	\$122	Caltrans
Categories outside CTC / Caltrans:					
School Bus Retrofit*	\$200	\$193	\$0	Fully appropriated in 2007	Air Res. Board
Trade Infrastructure Air Quality*	\$1,000	\$250	\$25	\$250	Air Res. Board
Port Security	\$100	\$41	\$40	\$58	Office of Emerg. Svc.
Transit Security	\$1,000	\$101	\$0	\$102	Office of Emerg. Svc.
Categories with 2008-09 implementation (no 2007 Budget Act appropriation):					
Trade Infrastructure	\$2,000	\$0	\$0	\$500	Caltrans
State/Local Partnership	\$1,000	\$0	\$0	\$200	Caltrans
TOTAL	\$19,925	\$4,213	\$2,520	\$4,675	

* These Prop 1B Appropriations are heard in Subcommittee #2

To date, Caltrans indicates that about \$2.5 billion has been allocated (or made available for expenditure) to project sponsors. Note, when the Subcommittee discussed allocations at a special December 2007 hearing, a total of about \$600 million had been allocated.

Adjustments to 2007 Budget Act Appropriations: The January Governor's Budget and April Finance Letter #12 make adjustments to planned expenditures for 2007-08. The January Budget shifts \$492 million in Proposition 1B funds appropriated for 2007-08 to 2008-09. Caltrans indicates that this is primarily a technical adjustment with most of the CTC project allocations still occurring in 2007-08, but construction contracts taking some additional months to execute and therefore delaying "expenditure" of the funds to 2008-09. April Finance Letter #12 indicates that the Director of Finance has used authority in last year's Budget Act to augment the State Transportation Improvement Program (STIP) Proposition 1B appropriation by \$181 million to allow the CTC to make additional STIP allocations in 2007-08. The Finance Letter requests to reduce the STIP Prop 1B appropriation for 2008-09 by the same amount, because the capital and local assistance STIP bond funds are fully allocated over these two fiscal years. Staff also understands that the Corridor Mobility Improvement Account was augmented by \$126 million under this same authority.

Requested funding for 2008-09: Last year, the Legislature established funding mechanisms for Prop 1B programs that the Administration generally continues in the proposed 2008-09 budget bill. For example, for bond programs with adopted projects, the appropriation is based on planned project allocations; however, authority is provided to the Director of Finance to augment the appropriation by up to 25-percent of the 2009-10 expenditure amount if some project allocations are accelerated from 2009-10 to 2008-09. The majority of Prop 1B programs administered in the transportation area (excluding Air Resource Board and Office of Emergency Services programs) have established guidelines and funding mechanisms and do not appear to present any controversies relative to 2008-09 budget funding. There are five bond programs with issues that the Subcommittee may want to discuss and consider. The specific programs and issues are detailed in the suggested questions below.

Suggested Questions: The Subcommittee may want to hear from the LAO, Caltrans, the CTC, and the public on the following:

1. ***What progress has the Administration made in Prop 1B staffing and project allocations since the December 2007 hearing?***
2. ***With the slowing private-sector construction market, Caltrans is receiving more bidders per project resulting in contracts that are below the engineer's estimates – what does this suggest for the bond program and the desirability of moving bond projects quickly?***

3. ***What is the Administration's plan for the Intercity Rail component, relative to a Department of Finance Audit that raised questions about the level of need for new rolling stock? When will Finance allow Caltrans to move forward on rolling stock purchases and track improvements (budget bill language requested by the Administration and approved last year holds expenditure of the funds until Finance completes an audit and reaches agreement with Caltrans on the need for new rolling stock)?***
4. ***Is the \$950 million appropriated in 2007-08 for Local Streets and Roads sufficient authority to cover both 2007-08 and 2008-09 expenditures (no new funding is proposed in 2008-09, and it is anticipated more funding would be appropriated in 2009-10)?***
5. ***What does the LAO, and other interested parties, recommend with regards to establishing the time period for the formula allocation of Transit component (current law specifies that the 2007 Budget Act appropriation of \$600 million be allocated to transit agencies based on revenue and ridership data from the 2004-05 through 2006-07 years, but does not specify the data period for the ongoing program)? Is the requested allocation of \$350 million for 2008-09 sufficient given that this is a \$3.6 billion program?***
6. ***What is the appropriate funding level for the Trade Corridor Improvement Program, since the California Transportation Commission has adopted a program of projects on April 9, and the Governor's Budget just included a placeholder level of funding for this program?***
7. ***What is the LAO recommendation for the State Local Partnership Program? (Note: \$200 million in funding is proposed and the amount of funding does not appear to be controversial. The LAO recommends the addition of budget bill language to tie expenditure of program revenue to the enactment of implementing statute via a future policy bill.)***

Staff Comment: As indicated, most Prop 1B appropriations for 2008-09 appear to be non-controversial. A few programs may merit further analysis due to upcoming audit reports and to give related policy bills some additional time to work through committees (Intercity Rail and State Local Partnership). Other Prop 1B programs, involve some ongoing controversies, but there would not likely be any benefit gained from delaying action, so the Subcommittee may want to close those issues at this hearing (Local Streets and Roads, Transit, and Trade Corridor Improvement). For Local Streets and Roads, staff understands some counties would like a 2008-09 appropriation, but the amount appropriated in 2007-08 was anticipated to last two years for most counties, and more distributions in advance of project needs would increase General Fund bond interest costs by issuing bonds before the funding is needed. For Transit, there are slightly different allocations to local transit agencies depending on what base years are used for the allocation formula; however, a stable formula is desirable, and adoption of the 2004-05 through 2006-07 period on an ongoing basis would tie to both the period that Proposition 1B was developed and approved by voters, and the 2007 Budget Act formula. For the Trade Corridor Improvement Program, the California Transportation Commission held multiple

hearings and on April 9 adopted a program of projects – the CTC expects to allocate \$413 million in 2008-09.

Staff Recommendation:

- Keep open the Intercity Rail and State Local Partnership appropriations, but approve all the other programs with the following modifications:
 - Update the Trade Corridor Investment appropriations to replace the placeholder funding amounts with the actual program adopted by the CTC (the updated appropriation would be \$413 million [according to Caltrans]) with language allowing an augmentation of up to 25 percent of the 2009-10 project need if projects are accelerated.
 - Revise statute to set the *ongoing* Transit funding formula to the 2004-05 through 2006-07 base period.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Harman absent. Also adopted LAO's recommendation to allow Transit project sponsors to "bank" funds over multiple years.

15. Proposition 1B State Operations (BCPs #15, #38, Finance Letters #4). The Administration submitted three requests related to Prop 1B staffing. All three relate to administrative workload, and do not include Capital Outlay Support (COS) staffing of Engineers and Engineering Technicians that design and oversee construction projects. Adjustments to COS staffing will be presented by the Administration in a May Revision Finance Letter consistent with statutory authority. In these three budget proposals, the Administration requests a total of \$4.9 million (Prop 1B bond funds) and 46 positions. Note, last year the Legislature approved about 70 new Caltrans positions to perform administrative workload related to the bonds; however, the Administration originally had requested 112 new positions. The number of new positions was reduced, in part, because some of the new workload would not occur until after 2007-08. So, some growth in Prop 1B administrative staffing for 2008-09 was a consideration when actions were taken last year.

Background / Detail: The specific Administration proposals are as follows:

- BCP #15 requests \$2.1 million (bond funds) and 23 new positions (three-year limited-term). The Division of Accounting would gain 6 positions to process a higher volume of project accounting workload; the Division of Mass Transportation would gain 7 positions for administrative responsibilities for the Public Transportation Modernization, Improvement and Services Enhancement Account (PTMISEA) bond component; and the Division of Rail would gain 10 positions for coordinating the completion of high-priority grade separation and railroad crossing safety improvements.
- BCP #38 requests no dollars and 5 new positions (two-year limited-term) which the Administration indicates were inadvertently deleted last year when implementation of the Trade Corridor Improvement Fund and State and Local Partnership Program were deferred to 2008-09.
- April Finance Letter #4 requests \$2.8 million (bond funds) and 18.0 new positions for workload associated with the Trade Corridor Investment Fund and the State-Local Partnership Program for which implementation was deferred from 2007-08 to 2008-09 in the 2007 Budget Act. The new positions would be spread over Transportation Planning (2 positions); Local Assistance (8 positions), Rail (1 position); Audits and Investigations (2 positions); Accounting (4 positions); and information technology (IT) (1 positions). The IT position would be funded from all bond categories and help maintain and improve the bond accountability website.

LAO Recommendations: The Legislative Analyst worked with the Administration to validate the staffing requests and those discussions resulted in a revised administration request. Staff understands that Caltrans believes BCP #15 can be reduced by 18.6 positions resulting in a net new funding request of \$318,000 and 4.5 new positions.

Staff Comments: As alluded to above, when the Legislature reduced the requested Prop 1B staffing last year, it was anticipated there would be some staff ramp-up over time and that a new staffing request for 2008-09 was likely.

Staff Recommendations:

- Approve the reduced level of BCP #15 staffing recommended by the LAO.
- Approved technical BCP #38 budget corrections.
- Approve FL #4, but also adopt budget bill language to tie the expenditure of funding related to the State-Local Partnership program to the implementation of program guidelines.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Harman absent.
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16. Information Technology Requests (BCP #31, April Finance Letter #1, #3, #5, #11, #14, and part of #15). The Administration submitted six requests relating to ongoing or new information technology (IT) projects.

Background / Detail: The specific Administration proposals are as follows:

- BCP #31 – IT Acquisition Staff requests 5 new positions funded from a combination of new funds (\$188,000) and funds redirected from operating expenses and equipment (\$226,000) to establish an acquisition program in the Division of Procurement and Contracts to meet the Department of General Services Uniform Standards for IT procurement as mandated in Management Memo 07-02. Caltrans indicates that the workload is driven by DGS lowering the cost threshold for IT projects for the documentation, analysis, and evaluation requirements.
- Finance Letter #1 – Integrated Financial Management System (IFMS) requests approval of a multi-year cost escalation for this project of \$8.5 million and extension of limited-term positions to accommodate the 2-year project delay outlined in the recent Special Project Report. The new total cost for the project is \$40.4 million, including \$13.9 million in redirected resources. This project would replace the 24-year old legacy system known as Transportation Reporting and Accounting Management System (TRAMS) and establish the new enterprise infrastructure to support the Department's new financial management system and implement the applications supporting core financial system processes, including general accounting and budget management processes. Caltrans also requests to rename the project from IFMS to Enterprise Resource Planning (ERP) – Financial Infrastructure, or E-FIS. Multi-year funding of about \$31.9 million was originally approved for this project in 2006-07.
- Part of Finance Letter #15 – Integrated Financial Management System (IFMS) requests technical budget adjustments related to base funding for IFMS that was built into the January Governor's Budget. The Administration indicates that the correct base project budget for 2008-09 (based on multi-year funding approval in 2006-07) was \$8.0 million. However, an additional \$11.2 million was inadvertently added. This technical FL requests to delete the \$11.2 million from the Governor's Budget.
- Finance Letter #3 – Construction Management System (CMS) requests approval of a revised project schedule that anticipates project completion in 2011-12 instead of 2009-10 as originally anticipated when the project was approved in 2006-07. The new cost is actually about \$500,000 less over the multi-year period. The project would replace the 32-year old legacy system known as Contract Administration System (CAS) with the purchase, transfer, and modification of an existing system from the American Association of State Highway and Transportation Officials. The new system would allow better expenditure tracking by project and is estimated to produce annual savings of about \$18.8 million when in use from a combination of reducing bad payments to contractors and reducing federal ineligibility notices.

- Finance Letter #14 Project Resourcing and Schedule Management System (PRSM) requests a reappropriation of \$11.6 million for the PRSM project. PRSM would improve the management and tracking of Capitol Outlay Support (COS) costs for transportation projects, adding new functionality so Caltrans could easily track COS costs by individual project and tie that information to employee timekeeping. According to the Finance Letter, the winning bidder failed to sign the contract in February 2008, and DGS has since issued a new Notice of Intent to Award to the remaining qualified bidder. If that bidder accepts the contract, the funding will be encumbered and this request will not be necessary. This request is only necessary if that vendor also rejects the contract and procurement is reinitiated in 2008-09.
- Finance Letter #5 Roadway Design Software (RDS) requests approval of a multi-year funding of \$10.4 million (\$200,000 in 2008-09) to replace the engineering design software the department uses for highway projects. The existing software is being discontinued and no longer enhanced or supported by the vendor.
- Finance Letter #11 Transportation Permits Management System (TPMS) requests a budget reduction of \$551,000 to backout the budgeted ongoing costs for the TPMS IT project which was recently abandoned as a failed project. The LAO detailed the history of this project in the *Analysis of the 2008-09 Budget Bill*. The TPMS was supposed to automate the issuance of transportation permits for oversized or overweight loads to reduce the incidence of human error and any resulting bridge hits or accidents that might result. The LAO recommended that Caltrans report to the Subcommittee on its plans for automating transportation permitting now that the IT project has failed.

Suggested Questions: The Subcommittee may want to hear from the LAO, Caltrans, and the public on the following:

1. **For BCP #31 – IT Acquisition Staff:** *Caltrans requests new staff and cites DGS Management Memo 07-02 as the workload driver. However, staff is not aware of any other department that has submitted a budget request related to this Management Memo – Why can Caltrans not comply with the DGS memo within existing resources, as other department are?*
2. **For FL #1 & #15 – Integrated Financial Management System (IFMS):** *Caltrans requests authority to proceed to contract with the \$40 million IFMS project – Since this project has been delayed several years, does it still make sense to continue this project while the statewide FISCAL enterprise financial system is under consideration?*
3. **For FL #3 & #14 – Construction Management System (CMS) & Project Resourcing and Schedule Management System (PRSM):** *Caltrans requests reappropriations for these projects due to procurement delays. Since several years have elapsed since these projects were developed and technology is always changing, are these projects still the best technical and economical solutions to IT deficiencies?*

4. ***For FL #5 Roadway Design Software (RDS): Caltrans requests funding of \$10.4 million for this new IT project. Can this new IT project be deferred to 2009-10?***
5. ***For FL #11 Transportation Permits Management System (TPMS): What lessons have been learned from this failed IT project and how will Caltrans proceed to ensure safety in this area without an automated oversize/overweight on-line permitting system?***

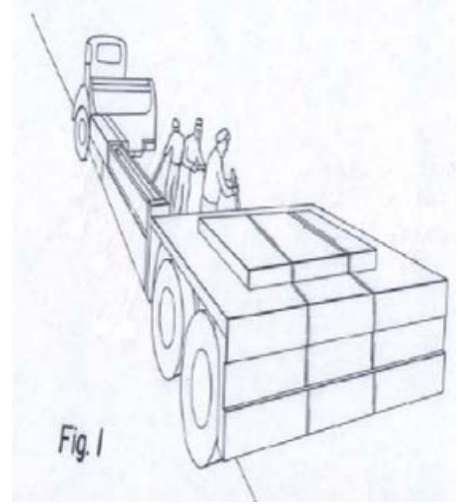
Staff Comment: According to follow-up information from Caltrans, most of the new workload related to IT Acquisition (FL #31) would come from new delegated IT projects in the range of \$500,000 to \$1.0 million. The budget situation would not seem to allow for many new projects of this nature. For the ongoing IT projects, IFMS, CMS, PRSM (FLs #1, 15, 3, 14), the need and value of these projects has previously been established, so recommend approval of the requested changes in project timelines and costs. For the TPMS (FL #11), it seems reasonable to delete the IT system maintenance funding, since the IT system has been declared a failed project – however, since this project relates to a public safety issue, the Subcommittee may want to add a report requirement for Caltrans to outline its new longterm approach to this problem (after that longterm approach has been determined). For RDS (FL #31), it appears this should be a low-risk project, and that the new design software will ultimately be needed – since the 2008-09 cost is only \$200,000, it may make sense to move forward this year, instead of deferring the project a year.

Staff Recommendation:

- Reject *new* funding for IT procurement (BCP #31) but allow Caltrans to redirect the requested \$226,000 from operating and expenses funding for new staff.
- Approve the requested budget changes for previously-approved IT projects: IFMS (FL #1 & 15), CMS (FL #3), and PRSM (FL#14).
- Approve the technical adjustment to reduce the budget by \$551,000 to recognize the failed TPMS IT project, but add new Supplemental Report Language for Caltrans to report its long-term solution, once it is determined. (January 10, 2009, due date).
- Approve the new IT project RDS (FL #5) to update Caltrans' design software.

Action: Approved Staff Recommendation for BCP #31, and FL #5 on a 2 – 1 vote with Senator Harman voting no. Approved Staff Recommendation for the other budget requests on a 3 – 0 vote.

17. Worker Safety Improvement (BCP #12). The Administration requests \$2.3 million (one-time State Highway Account) to purchase and deploy six mobile work zone protection devices (three Balsi Beams and three Barrier Systems' ArmorGuard mobile barriers) that will reduce fatalities in work zones, provide immediate and improved safety to roadway works and the public, and reduce traffic congestion. Eleven work-zone fatalities have occurred since 2002. The Balsi Beam system, pictured at right, was developed by Caltrans. The Department owns the patent and revenues related to the patent may help offset the cost over time. Because of the added safety of the Balsi Beams, fewer lanes of traffic need to be closed, and that is the basis of the congestion relief.



Staff Comment: Since the requested safety systems are limited in scope (a total of six devices), the Subcommittee may want Caltrans to report next Spring on the implementation of this year's request and whether additional investments would be warranted. Additionally, it would be interesting to know if Caltrans is successful in selling the right to use the technology to other entities and, if so, what is the amount of the sale and who are the purchasers.

Staff Recommendation: Approve the request with the addition of March 1, 2009, supplemental report language.

Action: Approved request plus report language on a 3 – 0 vote.

18. Federal Highway Administration Requirements (BCP #20 & TBL). The Administration requests a net funding increase of \$638,000 (State Highway Account), a shift of local assistance funds to State support of \$2.2 million (federal funds) and 30.0 positions (permanent) to address the workload increase resulting from implementation of more stringent regulations and modified business practices of the Federal Highway Administration (FHWA). Implementing Trailer Bill Language (TBL) is also requested. According to Caltrans, new FHWA documentation requirements and oversight requirements have doubled the time staff spends authorizing funding for typical transportation projects. Because a majority of this workload relates to federal funds that flow to local governments, a proportional amount of the new administrative costs is taken from relevant local assistant funds.

Staff Comment: The request to primarily fund the cost of the new federal requirements via redirection of the related federal funds seems reasonable. The alternative would be to leave the related federal local assistance funds whole, and use additional state funds to address the new requirements.

Staff Recommendation: Approve the request.

Action: Approved request on a 2 – 1 vote with Senator Harman voting no.
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19. Office of Strategic Planning / Performance Measures (BCP #25). The Administration requests \$1.1 million (State Highway Account) and 5.0 positions (permanent) for strategic planning and performance-based management efforts. Caltrans indicates that these positions will be used to develop annual operational plans; update the strategic plan; build the business plan; develop and refine strategic performance measures; prepare quarterly performance reports; and conduct external and internal surveys. In 2005-06, BCP #10 funded the development of strategic performance measures on a two-year limited-term basis – those funds expired in 2006-07 and this BCP indicates Caltrans absorbed the cost of the effort in 2007-08.

Staff Comment: Staff has reviewed some of the planning and performance measures related to the request, and they have value. However, this workload is being absorbed within the 2007-08 budget, and the Subcommittee is generally rejecting budget requests for ongoing activities where the departments have been able to make do in 2007-08 with base budget resources. Additionally, strategic planning and the measurement of performance should already be activities included in any department's core workload.

Staff Recommendation: Reject the request.

Action: Rejected request on a 3 – 0 vote. Chair directed staff to review any additional information Caltrans wishes to provide.
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20. Americans with Disabilities Act (ADA) - Compliance (April Finance Letter #2).

The Administration requests \$3.5 million (each year for two years - State Highway Account) and 2.0 positions (two-year limited-term) for (1) development of an updated transition plan and program to achieve ADA compliance - \$3.6 million over two years; (2) complaint resolution / investigation - \$2.2 million over two years; and (3) contract legal services for litigation - \$1.2 million over two years (Caltrans is absorbing some related legal service contract costs in 2007-08). Caltrans indicates that most sidewalks within the state highway system have been placed by local agencies via encroachment permits; however, the State is responsible for ADA compliance and more than 2,000 miles of sidewalk and 15,000 intersections existing on the State highway System.

Staff Comment: During the February 27, 2008, Senate Rules Committee confirmation hearing for Business, Transportation, and Housing Secretary Dale Bonner, the ADA litigation against the State was discussed. The State was using the defense that state agencies have “sovereign immunity” to challenge the venue the plaintiffs used to seek a remedy for their claims against Caltrans. This line of defense was a concern for disability rights groups that testified at the hearing, and the President pro Tempore asked the Administration to reconsider this line of defense. Since that hearing, the federal district court did reject the claim of sovereign immunity, although the litigation is ongoing.

The January Governor’s Budget reflects that the Highway Transportation Legal program has a 2008-09 budget of \$80.4 million and 194.8 positions, including \$48.6 million in expected tort payments. It is not clear why the existing legal budget cannot accommodate the \$600,000 in litigation contract costs, especially given that those costs are being absorbed in 2007-08.

Staff Recommendation: Approve the requested funding for the ADA transition plan and complaint resolution/investigation, but reject the augmentation for litigation contracts.

Action: Approved Staff Recommendation on a 3 – 0 vote.

21. Aircraft Replacement (BCP #9). The Administration requests authority to seek a loan of \$1.2 million to be repaid over a 10 year period with annual payments of about \$156,000 out of the Aeronautics Account. Caltrans currently operates two aircraft to meet statutory inspection requirements for general aviation airports and heliports. The Department indicates that the older of the two existing aircraft, a 1969 Beechcraft Bonanza model “E-33” Debonair, is experiencing degraded operational safety and higher operating costs.

Detail / Background: The Division of Aeronautics is supported by about \$8.0 million in annual revenue from the excise tax on jet fuel and aviation fuel. These revenues are considered general taxes, not fees, and are not constitutionally protected like gasoline excise taxes. Annual expenditures are split between state operations and local assistance grants, with about \$3.6 million supporting the Caltrans staff of 25.7 positions and their activities, and with about \$4.1 million supporting three grant programs to general aviation airports. Statute requires the Division to inspect general aviation airports for obstructions (such as trees) in the vicinity of airports, approve heliport permits, and evaluate proposals to construct State buildings within two miles on an airport. Caltrans performs their statutory duties by flying two aircraft around the state to inspect the 250 public-use airports, 64 special-use airports, and 495 special-use heliports.

Staff Comment: Since the Subcommittee has not heard any budget issues related to the Caltrans Division of Aeronautics in several years, the Subcommittee may want to hear from Caltrans on this budget request and how it is necessary to achieve their statutory obligations. The proposal to use multi-year financing to acquire the new aircraft seems reasonable, to lessen the impact in any one year on grants to local airports.

Staff Recommendation: Approve the request.

Action: Approved request on a 3 – 0 vote.
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22. Transportation Loans (Governor's Budget, TBL, and LAO Alternative). The table below is copied from the March 2008 Caltrans *Quarterly Finance Report* that the department presents to the California Transportation Commission.

Status of Outstanding Transportation Loans (\$ millions)				
FUND	Original Loan Plus Interest as of 2004-05	Loans/Interest Paid-to-Date	Expected 2007-08 Payments	Remaining Balance
Pre-Proposition 42 (Tribal Gaming Revenue):				
State Highway Account (SHA) ¹	\$473	\$241	\$100	\$132
Public Transportation Account (PTA) ²	275	10	0	265
Traffic Congestion Relief Fund (TCRF) ³	482	0	0	482
Locals ⁴	0	0	0	0
Subtotal Pre-Proposition 42 Tribal Gaming Loans:	\$1,230	\$251	\$100	\$879
Proposition 42:				
Public Transportation Account (PTA)	\$217	\$217	\$0	\$0
Transportation Investment Fund (TIF)	438	438	0	0
Transportation Congestion Relief Fund (TCRF) ⁵	1,067	323	82	662
Locals	438	438	0	0
Subtotal Proposition 42 Loans:	\$2,160	\$1,416	\$82	\$662
Totals:	\$3,390	\$1,667	\$182	\$1,541

¹The SHA is expected to be repaid \$100 million in 2008-09 and approximately \$32 million in 2009-10 depending on SCO interest calculations.

²The PTA repayment is expected to begin in 2012-13 and be completed in 2014-15.

³The TCRF repayment is expected to begin in 2009-10 and be completed in 2016-17.

⁴The 2006-07 Proposition 42 loan repayment of \$1.416 billion repaid the local Pre-Proposition 42 balance that was to be paid from Tribal Gaming bonds.

⁵The remaining amount due to TCRF under Proposition 42 suspension will be repaid in equal annual installments ending in 2015-16.

Background / Detail: As indicated on the table, at the end of 2004-05, a total of \$3.4 billion was outstanding from transportation loans to the General Fund. Through 2007-08, approximately \$1.8 billion of these loans will have been repaid and about \$1.5 billion will remain outstanding. Of the outstanding debt, \$879,000 will be repaid by tribal gaming revenue pursuant to statute and \$662,000 will be repaid by the General Fund pursuant to the requirements of the Constitution as amended by Proposition 1A in 2006. The Governor's Budget reflects 2008-09 loan repayments of \$100 million from tribal gaming revenues and \$83 million from the General Fund.

Due to actions taken in the 2007 Budget Act to address the General Fund shortfall, certain Public Transportation Account (PTA) revenues were shifted to fund mass transportation expenses that would otherwise have been supported by the General Fund. That action has left the PTA short in 2008-09 and the Administration proposes a \$60 million loan from the Traffic Congestion Relief Fund (TCRF) to the PTA to cover the cost of ongoing PTA projects in 2008-09. The Administration believes it will be able to repay this intra-transportation loan in 2010-11, and that it would not affect project allocations for the TCRF program.

LAO Alternative: In the *2008-09 Perspectives and Issues*, the Legislative Analyst presents an alternative budget that includes diversion of \$100 million in tribal gaming funds from transportation-loan repayment to the General Fund on a one-time basis. As budgeted, the 2008-09 tribal gaming payment will repay \$100 million to the State Highway Account, where the funding will support the State Highway Operations and Protection Program (SHOPP). The LAO alternative would provide \$100 million in General Fund relief but at the expense of delaying \$100 million in SHOPP projects.

Possible Tribal-Gaming Bond: In addition to the issues discussed above, it should be noted that litigation continues concerning the issuance of a bond backed by tribal revenue to repay a portion of transportation loans. The bond was authorized by statute in 2004, and current statute prioritizes the repayment of transportation funds in the following order:

- \$132 million for the State Highway Account (SHA)
- \$290 million for the Traffic Congestion Relief Fund (TCRF)
- \$265 million for the Public Transportation Account (PTA)
- \$192 million for the Traffic Congestion Relief Fund

Since litigation has delayed the issuance of the bonds, the incoming revenue of \$100 million per year has been used to directly repay transportation debt instead of repaying bonds. Staff understands there is some probability that litigation will be resolved and tribal gaming bonds will be sold in 2008-09. The statutory prioritization of loan repayments was set according to the priorities of 2004, and prior to Proposition 1B transportation bonds. Given the time that has elapsed since the statutory repayment plan, it may be worth updating this prioritization to conform to current priorities – for example, it may make sense to first fully repay the SHA, next repay \$60 million to the PTA (pursuant to the identified cash need), next fully repay the TCRF, and finally fully repay the PTA.

Suggested Questions: The Subcommittee may want to hear from the LAO, Caltrans, the CTC, the Department of Finance, and the public on the following:

- 1. *What is the status of litigation related to the issuance of tribal gaming bonds?***
- 2. *What would be the likely amount of proceeds from tribal gaming bonds?***
- 3. *What is the TCRF fund condition and are some transportation projects being delayed due to outstanding loans from the TCRF?***
- 4. *What is the PTA fund condition, and why is a loan from the TCRF the best response?***
- 5. *Does it make sense to reprioritize the loan repayments from tribal gaming bonds?***
- 6. *What is the LAO alternative for the \$100 million tribal gaming payment in 2008-09 and what would be the affect on transportation programs?***

Staff Recommendation: Keep this issue open for further discussion and for the May Revision.

Action: Deferred issue to future hearing due to time constraint.

23. Transportation Funds for the Institute of Transportation Studies (in the University of California Budget). The Administration requests an augmentation of Public Transportation Account (PTA) funding for support of the Institute of Transportation Studies (ITS) at the University of California (UC). The Administration requests to increase PTA funding from \$980,000 to \$6.0 million. The funding would help address what UC considers a lack of sufficient core funding. The ITS also attracts \$30 million per year in extramural research funding. If the funding is approved, UC indicates that it would be used to initiate new research, education, and outreach programs at the existing ITS programs at the Berkeley, Davis, and Irvine campuses, but will also seed and support the expansion of transportation research at six other campuses. UC suggests the new PTA funds would increase their ability to obtain additional federal research grants.

Staff Comment: Staff discussed this proposal with the Subcommittee #1 Consultant in regards to the UC budget. It seems appropriate to consider this proposal in two steps: first, a determination in Subcommittee #4 if PTA funding is sufficient to support increased support of ITS at UC; and second – if Subcommittee #4 approves the funding, a determination by Subcommittee #1 if the planned UC expenditures of PTA funds is best-focused on Legislative priorities.

The UC indicates that the PTA support of transportation research was first established at \$920,000 in 1947, and has since then only growth to \$980,000.

Given the insolvency of the PTA discussed in the prior issue, and the proposed \$60 million loan from the Traffic Congestion Relief Fund to the PTA to keep the PTA solvent in 2008-09, there does not appear to be capacity for the 500-percent increase in PTA support for UC this year. Given the valuable transportation research performed by UC, the Administration may want to resubmit this proposal in a future year when the PTA has sufficient reserves.

Staff Recommendation: Reject the PTA augmentation for the UC Budget.

Action: Rejected request on a 2 – 0 vote with Senator Harman absent.

24. Funding for Pilot Projects with Late Reports: There are three limited-term pilot programs that the Legislature approved in past years, and that have funding budgeted for 2008-09, for which April 1, 2008, reports are overdue. The three pilots are as follows:

- **Owner-Controlled Insurance Program (OCIP):** This is a three-year pilot implemented in 2006-07 to test the cost savings that might be achieved from Caltrans-controlled insurance for highway contractors. \$1.4 million is budgeted in 2007-08 and \$1.4 million is budgeted in 2008-09.
- **Virtual Traffic Monitoring Stations (VTMS):** This is a two-year pilot implemented in 2007-08 to test the feasibility of purchasing traffic data from private vendors to possibly avoid the cost and traffic congestion associated with having to install and maintain traffic loop detectors in highway pavement. \$1.2 million is budgeted in 2007-08 and \$1.1 million is budgeted in 2008-09.
- **Corridor System Management Plan (CSMP):** This is a two-year pilot implemented in 2007-08 to test the benefit of highway corridor system management plans, to best focus future investment. \$4.8 million is budgeted in 2007-08 and \$4.8 million is budgeted in 2008-09.

LAO Comment: The LAO notes that last year's request for CSMP funding was modified by the Legislature to provide only one-year of funding - \$4.8 million in 2007-08. The intent of the Legislature at that time was that Caltrans would provide a new Budget Change Proposal (BCP) this year to justify, and request funds for, the second year of the pilot in 2008-09. However, Staff understands that Caltrans mistakenly retained the funding for 2008-09 without submitting a BCP.

Staff Comment: Caltrans is generally among the best departments for providing required reports and providing non-required performance data to the Legislature. However, there are currently three reports that directly relate to ongoing pilot programs with funding budgeted for 2008-09. When the Legislature previously approved funding for these pilot projects it was with the condition that the Administration would provide periodic reporting. In previous hearings this year, the Subcommittee has sometimes deleted funding for budget requests related to late reports, without prejudice to possible reconsideration at a later hearing after the reports have been submitted. Accordingly, the Subcommittee may want to delete the 2008-09 funding of \$7.3 million (State Highway Account) for these pilots.

Staff Recommendation: Delete funding of \$7.3 million for these pilot projects, without prejudice to possible reconsideration at a later hearing after the reports have been submitted.

Action: Approved Staff Recommendation on a 2 – 0 vote with Senator Harman absent.

2640 Special Transportation Programs

The State Transit Assistance (STA) budget item provides funding to the State Controller for allocation to regional transportation planning agencies for mass transportation programs. Revenue traditionally comes from the sales tax on diesel fuel and a portion of the sales tax on gasoline (including a Proposition 42 component), and is available for either operations or capital investment. With the passage of the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Prop 1B), bond funds are also available for this program. However, bond funds may only be used for capital investment.

The Governor proposes funding of \$1.1 billion for State Transit Assistance – an increase of \$189 million. This proposal includes \$350 million in Prop 1B bond funds and \$743 million in traditional fuel sales tax funds.

Background / Detail on Revenue: The proposed budget includes \$743 million for local transit operators that can be used for either operations or capital investments. These funds come from three primary sources:

- 67 percent of “spillover funds” that are available for traditional transit purposes – \$304 million (these are gasoline sales tax revenues in excess of Proposition 42);
- 75 percent of Proposition 42 funds that go to the Public Transportation Account (PTA) – \$223 million; and
- 50 percent of all other PTA revenues – \$216 million.

Combined, these represent an increase of \$439 million from the current year, which is funded at \$304 million. The proposed budget also includes \$350 million from Prop 1B funds for capital investment, which is a decrease from the \$600 million provided in the current year.

Background / Detail on 2007 Budget Act Changes: The proposed budget for STA is the result of three key changes in the current year:

- The Governor, in the current year, proposed to permanently redirect all spillover revenues to the General Fund. The final budget agreement resulted in only 50 percent of spillover funds being redirected to the General Fund beginning in 2008-09.
- To mitigate the impact on local transit agencies of this permanent shift of Spillover funds from the PTA, the budget agreement increased the STA’s share of the spillover that reaches the PTA from 50 percent to 67 percent beginning in 2008-09.
- The Legislature passed SB 717 (Perata) which increased the STA share of PTA revenues from Proposition 42 from 50 percent to 75 percent beginning in 2008-09.

If none of these changes had been made in the current year, then the non-Prop 1B budget for STA would have been about \$818 million. Clearly, the legislative actions to mitigate the loss of Spillover revenues helped, but did not completely fill the hole. In addition, to the extent the impact on STA was mitigated, it came at the expense of other

PTA responsibilities, such as the State Transportation Improvement Program (STIP), intercity rail, and high-speed rail.

Background / Detail on 2008-09 General Fund Relief: Consistent with statutory change adopted last year, the Administration estimates 2008-09 General Fund relief will be \$596 million and will be allocated as follows:

- \$372 million for transportation-related general obligation bond debt.
- \$141 million for transportation services budgeted in the Department of Developmental Services.
- \$83 million to reimburse the General Fund for the 2008-09 Proposition 42 loan repayment.

The Administration has submitted trailer bill language which makes technical changes to statute to implement the existing funding mechanism in 2008-09.

Staff Comment: The “spillover” portion of STA funding is highly dependent on gasoline prices. The Governor’s Budget assumes that gasoline prices in calendar year 2008 will average about \$3.30 per gallon. Average gasoline prices in 2008 have exceeded this estimate and each 10-cent increase in prices will increase relevant gasoline sales tax revenue in the neighborhood of \$70 million. Under the statutory allocation formula adopted in 2007, half of any new revenue will benefit the General Fund and half of any new revenue will benefit traditional mass transportation (one-third in the Caltrans budget and two-thirds in the STA). The Administration will submit new revenue estimates with the May Revision of the Governor’s Budget, which could significantly affect the STA budget.

Staff Recommendation: Hold open pending new revenue estimates with the May Revision of the Governor’s Budget.

Action: Deferred issue to future hearing due to time constraint.
